



Eliminating barriers to trade for leather shoes in Japan
An EBC Commentary by Camille Bedin
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The European Business Community (EBC) recently received a letter from the French Comité Colbert asking the EBC to include the issue of Japan's shoe quota in its negotiating agenda with the Ministry of Economy, Trade and Industry (METI).

The leather shoes sector is one of the most protected markets in Japan. The Government of Japan has implemented heavy protective measures that have created an unfavourable business environment for foreign producers. This protection remains a hot issue for free trade promoters. In fact, it involves an extremely delicate political situation with Japan's traditional leather industry. The safeguard of this industry represents a major stake for the Government. It makes this issue especially awkward to deal with, but it is an important issue for the Comité Colbert and for all EU footwear producers.

The Comité Colbert gathers the interests of some 65 prestigious French Houses sharing the same values, the same culture, the same research of quality. It is based on the well-known "French way of life": gastronomy and the arts of the table, the art of hospitality, of receiving and visiting... of elegance. The Comité is also an economic power, lobbying to promote the quality of its luxurious products all around the world. For instance, it is heavily involved in the fight against counterfeiting.

Japan represents a huge market for the Comité Colbert members and for all European footwear Companies. The Japanese footwear market is one of the richest and most energetic markets of the world. According to the European Confederation of the Footwear Industry, Japanese consumers are constantly on the lookout for high quality leather footwear. JETRO recently noticed a rise in the footwear demand, and leather footwear imports have been increasing for a number of year. But European firms have remained minor players in the market despite this positive trend. They still have to cope with two major obstacles.

First, the quota. This has remained unchanged since 1996, despite further evolution in the market. Today the tariff quota level is 12,019,000 pairs a year, exactly the level it was eight years ago. The procedure for obtaining a quota is extremely complex. The quota allocation system is based on a company's past experience in leather footwear imports. As a result, trading firms that have long been in this business are given preferential treatment over new market entrants. Furthermore, the application must be made within a certain timing following public announcement of the annual tariff quota in March. 90% of the allocated quota must be consumed by mid-November of the fiscal year otherwise they have to be returned to the METI. Companies that break this rule receive a penalty plus a reduced quota for the following year.

Second, duty rates. These are significantly high. The average duty rate is around 25% - 27%. Even more telling is the duty rate differential between Japan and the EU, which varies between 7% and 22% for leather footwear, the average differential being around 15%.



This makes things difficult for European companies. European footwear imports only amount to 13% of total imported footwear in Japan. The European Confederation of the Footwear Industry highlights that whereas the EU market becoming increasingly open, this openness is not reciprocated in the international market. Japan is one of the main culprits.

This is why the Comité Colbert is seeking consideration from the Japanese Government. To improve this unfair situation, the Comité is proposing an increase of the annual quota combined with a decrease of the duty rates with a cap amount, if necessary, to come in line with the EU levels. The EBC and the Comité Colbert hope that the Japanese Government will listen to these proposals. Past experience in this area, however, has been disappointing.

In 1999, the French Embassy had two meetings with the METI (formerly MITI) concerning this issue. On December 9th, the French delegation met the Tariff Division Director in the International Economic Affairs Department, and on December 28th, they met the Consumer Division Director in the Consumer Goods Industry Bureau. Regrettably these attempts didn't yield any progress.

In 2002, a delegation of the European Commission met the Paper Industry, Consumer and Recreational Goods Division Director, and seven other METI officials. Once more, no results were achieved.

In fact, the METI answers to the Europeans managed to dodge the issue. For instance officials said that this trade concern was a WTO matter and should be dealt with during the next world trade process. They also alluded to the fact that European shoe companies should not be complaining of the quota because some of them do not even fill their quotas. In this case, it would be useless to abolish or even increase the quota. This answer is a valid argument because it is undeniable that the quota is not always filled. In response, European importers would reply that quotas are not always filled because tariffs are too high and the quota system is unmanageable!

It appears that the main reason why Japan is reluctant to revise its quota and tariff system for leather shoes is the protection of national leather manufacturers against foreign competitors. While this may indeed be the case, it is important to realise that European leather shoe importers do not compete directly in the same market segment with Japanese producers.

The EBC is now supporting the Comité Colbert on this case. It is likely that the EBC will face the same reluctance from the Government. Yet, the political dynamics of the market has changed recently, which leaves some room for optimism.

First of all is the underlying goal of the Government to create an open environment for trade and investment. This includes such measures as strengthening the Regulatory Reform Program and the Office of the Trade Ombudsman. The government of Japan seeks to open the Japanese market to enhance its competitiveness. Deregulation of the quota for leather shoes would automatically favour the modernization of the national leather footwear industries.



Moreover, opening the Japanese footwear market would answer the most important European request in this file, namely fair trade between EU and Japan.

The EBC would like to enter into a new dialogue with the Government on this issue. Hopefully this negotiation will lead to better results than in the past. This will be good news not only for Europeans but also for Japanese producers, who will become more competitive. But it is the Japanese consumer that will be the happiest of all.